



**OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY
AUDIT REPORT: 2013-A-0006
AUDIT OF THE CITY OF SOUTH BAY
CASH DISBURSEMENTS**

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Inspector General

"Enhancing Public Trust in Government"

SUMMARY RESULTS AT A GLANCE

On December 13, 2012, three City of South Bay ("City") Commissioners were charged with a "Sunshine Law" violation and the City Manager was charged with grand theft in connection with his allegedly improper vacation leave payout of \$25,139. The Governor suspended the three City Commissioners and the City Manager went on paid administrative leave.

Based on these events, on January 8, 2013, the Office of Inspector General (OIG) initiated an audit of the financial operations of the City. During the course of our audit, the City Manager resigned effective February 12, and the City Commission ("Commission") appointed an interim City Manager on March 19.

Our audit initially focused on controls over City checks and electronic bank transfers/wires, City American Express (AMEX) credit cards, store credit cards, and petty cash. All transactions tested occurred between January 2009 and December 2012. Due to the serious conditions we have identified to date, we are releasing the first of two audit reports that will be issued on City operations.

The City has been designated by the Office of the Governor to be in a state of financial emergency during the full period in the scope of our audit. The significant expenditures that we questioned are

completely inconsistent with the exercise of sound fiscal responsibility and the efforts needed to restore the City to a solid and sustainable financial position. A high number of transactions we reviewed did not appear to result in any tangible benefit to the citizens of South Bay.

We have, thus far, questioned \$306,377 in expenditures, including \$298,209 out of \$1,198,303 (25%) of expenditures that we sampled, and \$8,168 in fuel charges for a home to work City vehicle that we noted. The table below summarizes the sources of questioned costs:

City Payment Method	Value of Sample	Questioned Cost
Checks	\$1,069,740	\$223,107
AMEX Cards	\$111,828	\$68,932
Store Credit Cards	\$12,996	\$4,581
Petty Cash	\$3,739	\$1,589
Sample Totals	\$1,198,303	\$298,209
Fuel – Take Home City Vehicle		\$8,168
Total Questioned Cost		\$306,377

During the course of this audit, we referred several questionable transactions to the State Attorney's Office. Due to the open criminal investigation, those

transactions will not be discussed in detail in this report.

Overall, we found that internal controls were seriously deficient, leaving cash and other assets highly vulnerable to fraud, waste and abuse. Lack of sufficient oversight and scrutiny of the City's financial activities by the Commission contributed to this condition. Expenditures, many authorized, requested or directly executed by the former City Manager, received very little oversight or approval by the Commission. Expenditures typically went unchallenged by the Commission or the Finance Director, despite the fact that the majority of those expenditures had little or no supporting documentation.

This created a situation where the former City Manager had too much authority and control without an adequate system of checks and balances.

Questioned expenditures included payments to contractors/consultants without adequate documentation or lacking evidence of work performed commensurate with payments made; potential personal use of City credit cards by the former City Manager (some previously identified by the City); expense reimbursements paid by check to the former City Manager with no supporting documentation; and expenditures that lacked a clear public purpose or public benefit, such as employee holiday parties, a retirement party, meals in local restaurants, food for meetings and local lodging.

The specific findings detailed in our report include:

The Commission did not adequately monitor and control the financial activities of the City.

The Commission did not receive and scrutinize the financial reports and records in sufficient detail to detect the significant number of unauthorized, unsupported and, in many cases, inappropriate expenditures. Although the Commission requested the former City Manager to repay \$7,465 in questionable charges on his City AMEX credit card, made in the first few months of his employment (only \$5,000 was repaid), they failed to closely monitor subsequent spending by the former City Manager.

Controls over checks, electronic bank transfers and wires, and petty cash were not in place or did not operate effectively.

Weak controls over checks made the area the most vulnerable to questionable payments. Of the \$298,209 in expenditures that we questioned, \$223,107 (75%) was paid by checks identified in our sample. Some of the more significant control weaknesses included:

- lack of policies and procedures;
- check requests approved with no documentation or inadequate documentation;
- lack of proper segregation of duties between request, approval and issuance of checks and authorization of electronic bank transfers/wires; and
- no requirements or dollar thresholds established to require dual signatures on checks and dual authorization for electronic bank transfers.

Controls over City AMEX and store credit cards were not in place or did not operate effectively.

Sufficient controls were not in place and functioning for purchases made using AMEX credit cards and store credit cards. Of \$298,209 in expenditures that we questioned, \$68,932 (23%) were made using AMEX credit cards and store credit cards.

Significant control weaknesses we identified included:

- lack of policies and procedures;
- lack of supporting receipts or other documentation; 71% of AMEX credit card charges had no receipt;
- use of a City AMEX credit card still active in the name of the former City Clerk, retired since May 2012; over \$18,000 has been charged to the former City Clerk's credit card by several employees, including the former City Manager, after the Clerk retired;
- multiple users of City store credit cards without adequate accountability; and
- lack of effective review of monthly credit card statements, including review for supporting receipts or other documentation.

Controls are inadequate to ensure that all contracts are properly competed, awarded and approved by the Commission, and payments made are sufficiently supported.

In our review of check disbursements we identified payments to consultants and construction contractors that should have been supported by an authorized and executed contract. Our review noted several significant expenditures involving third parties that lack an authorized and executed contract and/or supporting

contract documentation to substantiate work performed and value received. We identified the following:

- contracts were not always submitted to the Commission for approval as required by City Ordinance or contracts were presented for Commission approval after work began and payments were made;
- payments made for work performed without a contract or with an unsigned contract, including to a City employee who was terminated and then paid \$14,156 for consulting work without a signed contract or Commission approval;
- payments made with no documentation to substantiate that services were delivered or that the value of services received by the City was commensurate with the payments;
- non-competitive procurements exceeding the City's \$3,000 threshold that requires competition; and
- contracts executed and payments made under the authority of the former City Manager without participation of the appropriate Department Director.

The City Finance Director failed to exercise his duty to protect City funds and effectively oversee basic Finance Department operations.

We could not identify any transactions where the Finance Director challenged requests for expenditures that lacked adequate documentation or substantiation of public purpose. In fact, many unsupported expenditures were approved by the Finance Director including several expenditures that we referred to the State

Attorney's Office. The Finance Director also did not ensure that the Commission received regular and detailed financial reporting needed to provide effective oversight of the City's financial activities.

In addition, we identified numerous deficiencies within the basic operations of the Finance Department. The deficiencies are symptomatic of a lack of policies and procedures as well as insufficient oversight of the finance operations by the Finance Director. Several of the issues that we identified included:

- the Finance Director approved cash advances on salary checks for certain City Commissioners contrary to Florida law;
- the Finance Director established an accounts receivable in 2010 for money owed to the City by the former City Manager without Commission approval, and never collected the money;
- bank reconciliations were not consistently performed and independently reviewed;
- bank signature cards that were out of date;
- sales tax was paid unnecessarily on many purchases;
- federal income tax was not withheld on bonuses paid to the former City Manager;
- employee benefits were not always reported for federal income tax purposes;
- monthly contributions due to the Florida Retirement System (FRS) for City Commissioners were missed for nine months and not corrected;
- effective inventory controls were not established for high risk items

such as laptops, iPads, cell phones and other electronic equipment;

- the use of the lowest cost alternative for vehicle repairs was not enforced;
- fidelity bond coverage was inadequate;
- Commissioner travel was paid on the former City Manager's personal credit card and reimbursed; and
- The former City Manager was paid expenses on a reimbursement basis without documentation and for items that should have been paid directly to the vendor.

Due to the extensive number of issues encountered in this audit, the fact that not every transaction was reviewed, and the gross inadequacy of the internal control environment, additional inappropriate expenditures could exist that were not identified in this phase of our audit. The OIG will review additional areas of City operations as part of our ongoing audit and may revisit areas covered in this report.

The conditions identified in this report pose a significant threat to the financial stability of the City and leaves it highly vulnerable to fraud, waste and abuse. It is imperative that immediate action be taken to improve the overall governance of the City, including more oversight by the Commission. Immediate action is also needed to correct the other significant control weaknesses that we have identified, including the pervasive practice of approving expenditures that lack any supporting documentation, or do not have a clear public purpose or public benefit.

The appointment of an interim City Manager, along with the issuance of our

report, provides an opportunity to significantly improve the internal control environment, especially controls over spending.

Several of the transactions that we have referred to the State Attorney's Office occurred after Office of Inspector General jurisdiction and therefore should have been reported to our office. One of the recommendations that we have included in this report is that the interim City Manager work with the Commission to establish procedures for reporting matters to our office, as required in the Inspector General Ordinance.

We have made 23 recommendations to correct the conditions noted in this first audit report. The new interim City Manager has provided a response to address our recommendations. The City has stated that it has implemented corrective action related to 13 recommendations and has pending action on ten recommendations, all scheduled for implementation within a reasonable timeframe.

We would like to acknowledge the challenging circumstances that the City staff experienced under the prior administration. During our audit, the City staff was fully cooperative and responded in a positive, professional, and timely manner to all of our requests. We believe this is indicative of an opportunity for the City to continue to improve the conditions noted in this audit report. We would also like to extend our appreciation for the cooperation of Mayor Berry and Vice Mayor Kyles during the conduct of this audit.

BACKGROUND

The City is situated in the Glades region of western Palm Beach County, on the southern end of Lake Okeechobee. The City has been among the most financially distressed cities in the State of Florida, and has been designated by the Office of the Governor to be in a state of financial emergency.

The City budget for the current fiscal year is \$2.89 million in revenue and \$2.68 million in expenditures across several funds.

The City operates as a "Commission form of Government" with five elected City Commissioners. The Commissioners appoint one member as mayor and one as vice-mayor. The Commission may hire a City Manager to perform duties as designated by the Commission.

In addition, the City's organizational structure consists of an appointed City Clerk, City Treasurer, and the following Departments:

- City Manager
- Finance
- Code Enforcement
- Community Development
- Public Works
- Parks and Recreation
- Planning and Economic Development
- Human Resources

The Commission may also retain a City Attorney and appoint other officials as advisable. In May of 2012 the long term City Clerk retired and a new City Clerk was appointed by the Commission. The Finance Department consists of a Director of Finance and a Finance Analyst.

On December 13, 2012 three City Commissioners were charged with a violation of the State "Sunshine Law" and the City Manager was charged with grand theft in connection with an allegedly improper payment of \$25,139 to him. On December 21 the three City Commissioners were suspended by the Governor. Subsequently, one new Commissioner was appointed by the Governor in order to establish a quorum. The City Manager went on paid administrative leave, and during the course of our audit, he resigned effective February 12, 2013. A new interim City Manager was appointed by the Commission on March 19. One of the three City Commissioners was convicted of violating the "Sunshine Law" on April 12, 2013, and the trials of the other two suspended Commissioners are pending.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to:

1. Determine whether internal controls were in place and adequate to govern cash disbursements made through City checks, electronic bank and wire transfers, City credit cards, and petty cash, including controls to prevent and detect fraud and misuse.
2. Determine whether cash disbursements complied with such controls, including if expenditures were of a nature that have a clear public purpose or public benefit.

All transactions tested occurred between January 2009 and December 2012.

Our audit procedures included but were not limited to:

- Evaluating the internal control procedures over monitoring and approving cash disbursements;
- Interviewing City personnel in order to gain an understanding of the controls and ascertain operational compliance;
- Evaluating compliance with applicable policies and procedures;
- Selecting various samples of disbursements from City records;
- Reviewing any available supporting documentation, and in some cases pursuing relevant documentation from third parties.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS**Finding (1): THE COMMISSION DID NOT ADEQUATELY MONITOR AND CONTROL THE FINANCIAL ACTIVITIES OF THE CITY**

The Commission is responsible for monitoring and controlling the overall financial activities of the City by establishing appropriate policies, means to monitor compliance, and exercising its authority to appoint key City personnel, while ensuring that City actions are in the public's interest. The serious control weaknesses and significant questioned costs described throughout the remainder of this report, including transactions referred to the State Attorney's Office, should have been identified and addressed by the Commission had they exercised an effective level of oversight over the City's financial activities. Considering that the City has been designated by the Office of the Governor to be in a state of financial emergency, closer monitoring of the City's financial activities should have been a higher priority for the Commission. The following summarizes the conditions we found that indicate a lack of effective oversight by the Commission:

- The Commission did not routinely review summarized and detailed City financial information at monthly meetings. Financial reports such as detailed budget to actual spending, proposed expenditures, encumbered funds, and credit card activity were not presented to the Commission as a regular agenda item. Certain Commissioners expressed frustration at the lack of financial reporting and transparency. However, the Commission did not demand such reporting that could have exposed many of the questionable costs we identified in this report.
- The Commission did not approve all purchases as required by the City Code of Ordinances Section 2-260. We identified many purchases that were not approved or were approved after payments were made. This is discussed in more detail in Findings (2)-(4) in this report.
- Contracts were entered into and payments made by City management without Commission approval. In addition, purchases for amounts above the City's threshold for competitive procurement were made without competition, without Commission approval, or without a signed contract. The Commission did not ensure compliance with the Ordinance requiring competitive procurements and Commission approval for all contracts. This is discussed in more detail under Finding (4).
- The Commission failed to ensure that the City had proper policies and procedures in place to establish and maintain an overall framework of internal control and effect operational compliance with City ordinances. This is discussed in more detail in Findings (2)-(4) in this report.
- The Commission failed to properly monitor the activities of the former City Manager even after being made aware of improper charges on his City AMEX credit card.

This last issue noted above is a clear example of the Commission's failure to exercise effective oversight of the City's financial activities. During our audit, we noted that the City had detected and questioned what appeared to be personal charges made by the former City Manager on his City AMEX card in the first few months of his employment.

In September 2009, at the direction of the Commission, the City Attorney sent a letter to the former City Manager requesting reimbursement to the City for questioned charges of \$7,465; only \$5,000 was repaid. This incident was a red flag regarding the potential for fraud or misuse of City funds. The Commission failed to prohibit the former City Manager from further use of his City AMEX card. This should have also signaled to the Commission that they needed to closely monitor the financial activities of the City, including expenditures by the former City Manager.

Instead, the former City Manager was permitted to continue to use his City AMEX card with no additional review or scrutiny by the Commission. Additional \$56,775 in charges were incurred on the card from November 2009 through February 2011, after which his card was canceled by the former City Clerk. We questioned \$32,775 (58%) of these charges. This is further discussed in Finding (3).

We also questioned \$223,107 in expenditures made by City check. Many of these checks were requested or approved by the former City Manager or the Finance Director, including checks issued directly to the former City Manager. We saw little evidence that City expenditures by check were routinely or closely monitored by the Commission.

Recommendations

(1) The City Manager should work with the Commission to establish a standard format for regular financial reporting as part of the regular Commission meeting agenda. This should include detailed information on the use of City funds including monthly expenditures.

(2) The City Manager should ensure that all purchases, including those requiring contracts, be submitted for Commission approval as required by City Ordinance Section 2-260. To ensure the continuity and timeliness of executing City payments, the City Manager may need to consider requesting an amendment to the Ordinance to require pre-approval only for expenditures above a specified dollar threshold. All purchases below the established threshold should be detailed and presented monthly for Commission review.

(3) The City Manager should establish policies and procedures for Commission approval that provide for reporting matters to the Office of Inspector General as required by the Inspector General Ordinance. Once approved the City Manager should ensure that all employees are made aware of those procedures.

Management Response:

(1) At each regular scheduled commission meeting the Finance Director will render a verbal and written report of the bi-weekly expenditures and seek approval of budget transfers and amendments as of April 16, 2013.

(2) Pursuant to Section 2-260 of the City's Ordinance during this administration all contracts will be reviewed and approved by the Commission. Additionally as of April 16, 2013 the Commission has amended the purchasing policy that will allow the staff to operate more efficiently and prevent waste, fraud and abuse.

(3) The City Manager shall work with the City Attorney, OIG and the City Commission to establish policies and procedures that provide for reporting matters to the OIG which would be completed in sixty (60) days.

Finding (2): CONTROLS OVER CHECKS, ELECTRONIC BANK TRANSFERS AND WIRES, AND PETTY CASH WERE NOT IN PLACE OR DID NOT OPERATE EFFECTIVELY

We identified several significant control weaknesses over expenditures including lack of policies and procedures, improper segregation of duties, lack of supporting documentation, and inadequate review and approval of transactions. These control weaknesses resulted in our identification of \$224,696 in questionable spending made by check and petty cash summarized on pages 12 and 13, along with a list of the types of expenditures we questioned. The following summarizes the control deficiencies we identified:

- Policies and procedures for the control of checks, cash, bank transfers, and wires are not documented to address the following:
 - ♦ Documentation required to request approval for a disbursement such as a purchase order, invoice, receipt, contract, bank and wire transfer instructions and purpose, and other appropriate documentation depending on the nature of the proposed expenditure.
 - ♦ Management review procedures prior to approving disbursements such as Commission authorization, available unencumbered budget, adequacy of supporting documentation, and management's levels of authority to approve transactions based on position and transaction amount.
 - ♦ Control over checks such as access to check writing, accounting for the sequence of checks, mailing of checks, voided checks, and posting to the City's financial records.
 - ♦ Procedures to ensure that bank account activity is monitored routinely and potential errors or irregularities are addressed on a timely basis.
 - ♦ Responsibility for timely preparation and review of bank account reconciliations.

- ♦ Cash management procedures including account transfers, cash flow management, and debt management.
- Policies and procedures were not documented for the proper management and use of petty cash including:
 - ♦ The maximum authorized value of the petty cash fund.
 - ♦ Authorized purposes for the use of petty cash.
 - ♦ Required supporting documentation such as store receipts.
 - ♦ Reconciliation and review procedures.
 - ♦ Periodic cash counting procedures.
- We noted inadequate segregation of duties as follows:
 - ♦ The Finance Director and Finance Analyst can individually initiate, print, apply a signature, issue checks of any amount, and record transactions in the general ledger.
 - ♦ The Finance Director can individually initiate, designate, and record bank/wire transfers of any amount.
 - ♦ The Finance Director also prepares the bank reconciliations, which are not reviewed by an individual independent of the cash disbursements function.
 - ♦ The City practice was that the City Manager or the City Finance Director can approve check requests. The Finance Director should be required to review and approve all check requests.
- Our review of checks, bank and wire transfers, and petty cash transactions revealed the following deficiencies:
 - ♦ Documentation did not support that Commission authorization was obtained, as required by City ordinance, prior to many disbursements.
 - ♦ Documentation such as purchase orders, properly completed check requests, receipts, invoices, and travel reimbursement forms necessary to support a check request was used inconsistently. Invoices were paid that lacked sufficient detail.
 - ♦ Disbursements were made by the Finance Department lacking documentation that the goods/services were received.
 - ♦ Checks were issued to the former City Manager for reimbursements without evidence that the expenses had actually been incurred and paid. Such checks should have been issued directly to the vendor.
 - ♦ We noted instances where the check requestor was also the check approver.

The table below summarizes the results of our review of supporting documentation for our sample of 183 City checks totaling \$1,069,740:

Summary of Results Documentation Review Statistics for Checks			
No Supporting Check Request Form	Check Requestor Undocumented on Form	Check Request Lacks Distinct Requestor and Approver*	No Supporting Invoice, Receipt, or Distribution Form
28%	46%	36%	13%

*Form had no "Requestor" and only an "Approver", or same "Requestor" and "Approver"

In our sample of checks and petty cash payments we found questioned costs including expenditures that lacked a clear public purpose or public benefit as summarized below:

Summary of Results Review of Checks and Petty Cash*					
	Value of All Transactions	Value of Sampled Transactions	Questioned Cost	%	Questioned Public Purpose
Checks	\$5,001,257	\$1,069,740	\$223,107	21%	\$19,899
Petty Cash	\$11,602	\$3,739	\$1,589	42%	\$1,589
Total	\$5,012,859	\$1,073,479	\$224,696	21%	\$21,488

*no exceptions noted in intra-bank and wire transfers

Examples of the \$224,696 in questioned costs and \$21,488 in costs of questionable public purpose or public benefit included, in part:

- ♦ \$122,268 in payments to consultants and contractors including those lacking Commission approval, no executed contracts, or a lack of documentation to substantiate payments made.
- ♦ \$36,099 in checks paid to the personal account of a city employee described as "retirement contributions" in conflict with City Ordinance 15-2010. The amounts were paid in a lump sum of \$24,405 followed by monthly payments that totaled \$11,694.

- ♦ \$17,306 in actual and asserted costs related to a bus purchased by the former City Manager from a company owned by a Riviera Beach Commissioner and former employee of the City; the bus cost \$7,500 to purchase, incurred \$7,981 in disputed repair costs, \$1,125 in towing costs, and \$700 in cash submitted for reimbursement by the former City Manager for new tires. The bus is currently in storage at a Riviera Beach repair business; the bus has been described as “scrap” and “junk” by City staff. It appears unlikely this bus will ever be put into service.



Purchased Bus in Storage

- ♦ \$12,686 in checks paid to the personal account of a City employee lacking Commission approval and inconsistent with the existing pension plan for City employees. The amounts were paid in a lump sum of \$6,785 followed by monthly payments totaling \$5,901.
- ♦ \$6,100 paid to an employee with no supporting documentation or substantiation of public purpose.
- ♦ \$6,071 in City funds expended on employee lunches and parties including an employee retirement party that cost in excess of \$2,300.
- ♦ \$4,640 for food at official public meetings.
- ♦ \$1,589 spent from petty cash (42% of the total amount we sampled) on items with a questionable public purpose or public benefit. Expenditures were for items such as employee birthday parties, employee lunches, miscellaneous food, and fuel purchases with no supporting documentation.
- ♦ \$887 in flowers to employees for birthdays, funerals, and other occasions.
- ♦ \$600 paid to a company that provides automated phone call services; the content of the calls was campaign messages for local candidates running for public office in upcoming elections, including City of South Bay Commission, City of Belle Glade Commission and Palm Beach County School District Board. Political message calls should not have been paid with City funds.

Recommendations

(4) The City Manager should establish a policy with Commission approval that identifies allowable and unallowable expenditures including prohibiting those types of expenditures that do not have a clear public purpose or public benefit.

(5) The City Manager needs to establish a set of comprehensive policies and procedures that establish appropriate financial controls including proper segregation of duties that ensures one individual does not perform two or more incompatible duties.

(6) The City Manager should issue a policy prohibiting the processing of check requests without proper approval and adequate documentation to support the payment. The policy should specify the type of documentation required.

Management Response:

(4) The City Manager will establish a policy with City Commission approval identifying allowable and unallowable expenditures including prohibiting those expenditures that do not have a clear public purpose or benefit by July 31, 2013.

(5) Due to the size of the City staff we are currently conducting an assessment to determine how this recommendation could be accomplished and acknowledge that segregation of duties must be imposed to ensure adequate and appropriate financial controls are in place.

(6) This administration has issued a policy prohibiting the processing of check requests without proper approval (Department Director, Finance Director and City Manager) on March 26, 2013.

Finding (3): CONTROLS OVER CITY AMEX CARDS AND STORE CREDIT CARDS WERE NOT IN PLACE OR DID NOT OPERATE EFFECTIVELY

The City currently utilizes a single AMEX credit card issued in the name of the now retired former City Clerk. Previously there were three American Express cards assigned to individual City employees including the former City Manager. The City also has three store credit cards including Home Depot, Office Depot and Walmart. We reviewed all charges to the City AMEX cards from May 2009 through November 2012, which totaled \$111,828. We reviewed \$12,996 (23%) out of \$56,230 of store credit card charges for fiscal years 2010 through 2012. We identified a total of \$73,513 (59%) in questioned credit card costs that are summarized on page 16.

As was the case with checks, bank transfers and petty cash, the City has no written policies and procedures on the proper control and use of credit cards to address:

- ♦ Issuance of credit cards to employees including:
 - Employees authorized to receive a City credit card.
 - Employee training regarding proper use of the City credit card.
 - A signed agreement between the City and the employee acknowledging the rules governing the use of the credit card.

- Designating acceptable vendor types, items/services, and transaction limits.
- ♦ The procedures for management review and approval of charge card activity to include resolving questionable charges.
- ♦ Ensuring that the cardholder obtains the State of Florida sales tax exemption.
- ♦ Terminating credit card accounts.

In the absence of such policies and procedures, we identified the following deficiencies in the use of the City credit cards:

- Pervasive lack of supporting documentation for credit card charges. Only 29% of AMEX charge card activity processed for payment by the Finance Department was accompanied by a receipt, and only 16% had any additional supporting documentation to substantiate a valid business or public purpose. Continuing to pay the monthly credit card bills when so many of the transactions lacked adequate documentation significantly increased the risk for misuse of the credit cards.
- Failure to cancel an employee credit card after the employee retired. Upon the City Clerk's retirement in May 2012, the Finance Director failed to cancel her AMEX card and permitted its use by various employees including the former City Manager until his resignation. This involved employees signing the former City Clerk's name at the point of sale or using the card for phone or internet transactions, all of which are inappropriate. Charges totaling \$18,015 were transacted in this manner. The card remains active.
- Lack of accountability over use of the credit cards. As indicated above, the one remaining AMEX card in the name of the retired City Clerk has been used by multiple employees. Also, the three store credit cards issued in the City's name are used by multiple employees. A log was kept in the Finance Department to track employee use. However, the Finance Department did not maintain the log consistently and we noted multiple charges when there was no record of the card being signed out. As a result, accountability for charge activity could not be clearly established.
- Unnecessary sales tax paid. We noted that State of Florida sales tax was paid on AMEX transactions. We sampled 12 transaction receipts and noted that state sales tax was paid on 8 transactions or 67% of the time, resulting in additional cost of \$232. As noted above, we found that only 29% of all AMEX transactions were documented with any receipts. As a result of the lack sales receipts, the City is unable to ascertain if state sales tax had been paid.
- Rebate points awarded from AMEX were misused. The City was eligible to receive rebates from AMEX based on charge card volume. We discovered that the reward points were given to employees in the form of \$975 in gift cards rather than put to use for a public purpose. Rebates earned by the City from credit card vendors should be used for valid public purposes or public benefit.

These various deficiencies all contributed to the significant amount of questioned cost that we identified. In our sample of credit card charges we found questioned costs including expenditures that lacked a clear public purpose or public benefit as summarized below:

Summary of Results Review of American Express and Store Credit Cards					
	Value of All Transactions	Value of Sampled Transactions	Questioned Cost	%	Questioned Public Purpose
AMEX Cards	\$111,828	\$111,828	\$68,932	62%	\$27,172
Store Credit Cards	\$56,230	\$12,996	\$4,581	35%	\$4,581
Total	\$168,058	\$124,824	\$73,513	59%	\$31,753

Examples of questioned costs and costs of questionable public purpose or public benefit that were charged to City credit cards included, in part:

- ♦ \$6,489 in computer equipment that was not purchased as part of an IT plan and some of which is unaccounted for.
- ♦ \$4,155 for rented construction fencing that was used at a job site related to the former City Manager's business interests and unrelated to the City.
- ♦ \$2,125 for a holiday party held at a restaurant at City Place in West Palm Beach, with an additional \$450 paid by City check.
- ♦ \$731 for a Commission budget retreat at a hotel in West Palm Beach that included breakfast, lunch, and snacks.
- ♦ \$612 in food for other meetings.
- ♦ \$500 for an individual's school class reunion.
- ♦ \$314 for an individual employee's medical and dental services.

It should be noted that the card assigned to the former City Manager accounted for \$41,396 (60%) of the questioned costs.

As previously stated in Finding (1), the City detected \$7,465 in questionable charges by the former City Manager in the months immediately after his employment commenced (\$2,465 has not been reimbursed to the City). As an example, there were 35 meals charged between May and July of 2009 totaling \$1,961. Many of the charges were transacted in the area of the former City Manager's residence. This included several charges on weekends and four meal charges that totaled \$438 at restaurants adjacent to the Hollywood casino area.

The former City Manager was permitted to continue to use his City AMEX card after the City's corrective action. An additional \$56,775 in charges was incurred on the card from

November 2009 through February 2011 with \$32,775 in questioned cost that lacked any receipts or other supporting documentation. Examples of these additional questioned costs include two meal charges totaling \$470 at the same Hollywood casino area restaurants as noted above, and three charges totaling \$1,462 for construction fencing rental unrelated to the City that are discussed in Finding (5).

Recommendations

(7) The City Manager should establish a comprehensive set of policies and procedures for issuance and control of credit cards as well as a process for review and approval of credit card transactions.

(8) The City Manager should ensure that all credit card charges are authorized, reviewed, have adequate supporting documentation and are for a valid public purpose.

(9) The City Manager should take immediate action to deactivate the credit card issued in the name of the former City Clerk.

(10) The City Manager should determine the optimal credit card solution such as use of purchase cards ("p-card"). Credit cards should be issued to individual employees based on their job requirements; a credit card should not be shared between employees.

(11) The City Manager, in consultation with the City Attorney, should determine the collection procedures to follow concerning the \$2,465 and any other unpaid reimbursement due to the City by the former City Manager.

Management Response:

(7) A separate policy will be developed for the issuance of credit cards by June 1, 2013. And the process for review and approval of credit card transactions will be in accordance with the City's purchasing policy.

(8) With the approval of the newly enacted purchasing policy, pending credit card charges shall be approved with the appropriate supporting documentation prior to transaction occurrence.

(9) The American Express card was deactivated following the approval and issuance of new credit cards.

(10) A separate policy will be developed for the issuance of credit cards by June 1, 2013. And the process for review and approval of credit card transactions will be in accordance with the City's purchasing policy.

(11) A city policy will be amended based on the decision of the Commission to collect all unpaid funds due to the city from the former City Manager/vendors by June 30, 2013.

Finding (4): CONTROLS ARE INADEQUATE TO ENSURE THAT ALL CONTRACTS ARE PROPERLY COMPETED, AWARDED AND APPROVED BY THE COMMISSION AND PAYMENTS MADE ARE SUFFICIENTLY SUPPORTED

During our review of check disbursements we noted the following related to contracting activities:

- Payments were made for consulting services without Commission approval, without competitive procurement, and without a signed contract.
- Payments for construction work without a signed contract and without Commission approval.
- Invoices for consulting and construction services were paid without adequate support for deliverables or services received.

The conditions noted above were evident in all or part of the following City work reviewed as part of this audit:

- We identified payments of \$39,800 to a contractor for debris removal and clean-up of the City Water Treatment Plant and Waste Water Treatment Plant. These payments were made from invoices unsupported by a contract. Although the work should have been supervised by the Public Works Department, it was managed by the former City Manager. We could not substantiate work performed commensurate with the payments made based on our examination of documentation and visual inspection at the facilities, one of which is shown in our photo at right taken after completion of the projects.



Waste Water Treatment Plant: Clean-Up

- We found that Resolution 21-2011 for lobbying services by a consultant was approved by the Commission. However, the City could not locate a copy of an executed contract. The unsigned contract detailed the "Purpose" and "Services" and a rate of \$150 per hour. The first two payments were made with supporting documentation. The last two payments were made by check request only with no

supporting documentation describing the work performed. All payments were approved by a single approver, the former City Manager. The contract total was \$18,750. We could not substantiate work performed commensurate with the payments made.

- A contract for a 2011 youth summer program was approved by Resolution 20-2011 on July 19, 2011. The contract value was variable based on resident participation but was not to exceed \$30,000. The full \$30,000 was paid to the contractor. We noted multiple issues that included:
 - ♦ On June 9, \$7,500 was paid prior to the execution of the contract (June 28). Further, on June 30, \$2,500 and on July 8, \$5,000, were paid to the contractor prior to the July 19 Resolution.
 - ♦ Further, we sampled two months (July and September) of contract deliverables. A review of the attendance for July showed only 24 participants which would have entitled the contractor to \$3,000 under the terms of the contract; attendance for September showed only 11 participants, equaling \$1,375 due. The contractor billed the City \$5,000 for both July and September, a total of \$5,625 over the contracted amount.
 - ♦ It appears that the contractor improperly billed the City to reach the contract maximum billing of \$30,000, and the City paid apparently erroneous and unsupported invoices.
- We found an unsigned contract for \$33,500 dated May 31, 2012 to renovate an existing building to create a City "Commerce Center". An initial "mobilization" payment of \$10,000 was made. We visited the worksite and were advised that very little work had been performed, namely replacement of several ceiling tiles. Work was stopped because of roof problems and no other payments were made to the contractor. In addition, a Stop Work order was placed on the building due to a lack of permits. We could not substantiate work performed commensurate with the payments made based on our examination of documentation and visual inspection at the facilities. Subsequent to the resignation of the former City Manager, the Commission authorized, on March 19, 2013 by Resolution 25-2013, continuing the work with the same contractor; however, the \$10,000 "mobilization" payment to the contractor was not addressed in the new contract.
- A consultant was hired by the former City Manager for "planning and economic development" work and was paid from September 19, 2011 through December 30, 2011 a total of \$19,562 based on a weekly rate of \$1,312. The City could not provide us with a written contract, any justification for not competing the work, and any evidence of Commission approval. On January 3, 2012, this consultant was hired as the full time Director of the South Bay Planning and Economic Development Department at a rate of \$62,982 per year. The employee was terminated on July 3, 2012, but rehired as a consultant on July 5, 2012, and paid a total of \$14,156

through October 10, 2012. We found that the City used an unsigned contract as the basis for payment. Again, there was neither documentation of Commission approval nor any justification for not competing the work. We could not substantiate work performed commensurate with the payments made.

- During our review of cash disbursements we noted recurring payments of \$5,000 to the contracted City Attorney. Upon review, we noted that the City Attorney invoiced the City based on actual hours incurred on City business until October 2010, when the payments were changed to a flat monthly amount of \$5,000. The average monthly bill for the 13 months prior to October 2010 was \$4,398. The City Attorney stated that the \$5,000 per month arrangement was saving the City money based on the various issues he was dealing with and the increased hours he was incurring. However, we noted the following:
 - ♦ The contract with the City Attorney, dated from 2005, was not modified to reflect the new payment arrangement. Therefore, there is no documented, approved contract with the City Attorney that supports the amounts paid since October 2010.
 - ♦ Effective October 2010, the City Attorney no longer included on his invoice the detail of hours worked on City business. The work and hours incurred should be documented to allow continuous evaluation of the compensation paid to the City Attorney and to document the legal matters addressed.

The deficiencies in contracting activities noted above can be attributed to the lack of documented policies and procedures necessary to guide the procurement process and ensure compliance with the City Ordinance related to purchasing. In addition, we noted a lack of effective contract monitoring. Several of the contracts that we discussed above involved services performed specific to certain City departments. However, we did not find evidence that the respective department heads or their staff were involved in actively monitoring the contract activity and reviewing the invoices to verify work performed prior to payment. Instead, most of this activity appeared to be handled by the former City Manager.

Recommendations

(12) The City Manager should develop contract procurement policies and procedures consistent with the City Ordinance.

(13) The City Manager should ensure that all contracts are approved by the Commission.

(14) The City Manager should ensure the involvement of the responsible department head to monitor contract performance and to verify work performed prior to payment of invoices.

(15) The City Manager should seek reimbursement from the youth summer program contractor for overcharges.

(16) The City Manager should evaluate the contract and ensure that the credit of \$10,000 previously paid to the Commerce Center contractor is credited to the amount due under the new contract. The work should be closely monitored for compliance with the terms of the contract.

Management Response:

(12) - (14) The City's (new) purchasing policy includes contract procurement procedures.

(15) A city policy will be amended based on the decision of the Commission to collect all unpaid funds due to the city from the former City Manager/vendors by June 30, 2013.

(16) No later than May 21, 2013 the City Commission will make recommended amended changes to the Commerce Center contract.

Finding (5): THE CITY FINANCE DIRECTOR FAILED TO EXERCISE HIS DUTY TO PROTECT CITY FUNDS AND EFFECTIVELY OVERSEE BASIC FINANCE DEPARTMENT OPERATIONS

The Finance Director, also acting as Treasurer, has a duty to protect and conserve public funds. However, we found that the City's Finance Director did not ensure appropriate control over the City's financial activities. We noted the following:

- Financial policies and procedures were not established to ensure adequate controls over financial transactions.
- The Finance Director failed to exercise appropriate control over City funds. Expenditures were approved with inadequate or no supporting documentation. The Finance Director did not intervene and sometimes directly approved transactions that were not authorized by the Commission. We identified several transactions approved by the Finance Director that we referred to the State Attorney's Office.
- Financial information was not provided to the Commission to promote timely, transparent information and scrutiny of the City's financial activities, as described in Finding (1).
- The Finance Director failed to report questionable matters that should have raised concern to the Commission or other appropriate authorities.

In addition to the matters related to the Finance Director's overall duties to protect and conserve City funds, we identified a variety of deficiencies in the basic operations of the Finance Department that are symptomatic of a lack of policies and procedures and ineffective oversight by the Finance Director. The deficiencies we identified included:

- We discovered that the Finance Director established an accounts receivable for money owed to the City by the former City Manager.

The former City Manager charged fence rental costs unrelated to City business totaling \$1,462 in 2010. The Finance Director established an Accounts Receivable in the City's general ledger for that amount, in November 2010, thereby creating a loan due to the City from the former City Manager.

We requested that the Finance Director provide us with any agreement signed by the former City Manager recognizing the amount owed, and evidence of Commission authorization. The Finance Director could not provide any documentation. The Finance Director did not deduct the money owed to the City from any subsequent payments to the former City Manager, including substantial bonuses. The amount remains uncollected.

- The Finance Director approved cash advances on salary checks at the request of two City Commissioners. The advances represented one pay period and were paid back to the City by offsetting subsequent pay. These transactions were inappropriate, and contrary to Article VII, Section 10 of the Florida Constitution, which states, in part: "Pledging credit; Neither the state nor any county, school district, municipality, special district, or agency of any of them, shall become a joint owner with, or stockholder of, or give, lend or use its taxing power or credit to aid any corporation, association, partnership or person..."
- Adequate inventory controls were not established by the Finance Director to track high risk items such as computers, printers, iPads, laptops, cell phones and other electronic equipment. In our sample of checks and AMEX charges, we noted several purchases of iPads and laptops by the former City Manager. We determined that equipment purchases totaling \$12,970 noted in our sample were not listed in the Finance Department IT equipment list.
- The City is exempt from Florida state sales tax. However, as noted in Finding (3), Florida state sales tax was paid on some purchases using credit cards and store credit cards, as well as petty cash. The Finance Director did not ensure controls were in place to prevent and detect erroneous payment of Florida state sales tax and seek to collect tax payments that were made in error.
- The Finance Director did not ensure federal income tax was withheld on bonuses paid to the former City Manager. The former City Manager was paid a lump sum of \$10,000 on June 15, 2010 and federal income tax was not withheld.

- The Finance Director did not ensure that bank signature cards reflected only individuals currently authorized to conduct banking transactions on City bank accounts. A former City Commissioner and the former City Clerk remained on file as authorized signatories with the bank. Not updating information held by the bank on a timely basis could result in an error or irregularity with respect to the City bank accounts.
- Bank reconciliations were prepared by the Finance Director. We noted several accounts and months lacking bank reconciliations. In addition, as noted in Finding (2), there is no independent preparation and review of bank reconciliations, minimizing the effectiveness of bank reconciliations for internal control purposes.
- The Finance Director failed to ensure that employee compensation was properly reported for federal tax purposes.
 - ♦ The Director of Community Development was provided a City vehicle that was also driven daily out of the City to the Director's home in West Palm Beach, approximately 88 miles roundtrip. The value of the use of the vehicle for commuting purposes is a taxable benefit that the City should include in the Director's gross compensation. The fuel cost alone, not considering depreciation of the City vehicle, was \$8,168. Use within the City would have been minimal as the City is 3.7 square miles. We have included the fuel costs of \$8,168 in the total questioned costs stated in this report.
 - ♦ In addition, as noted in Finding (2), the Finance Director approved payments to two City employees' personal bank accounts described as retirement benefits. As the payments were inappropriate and unauthorized, the total amount of \$48,785 (\$36,099 for one employee, and \$12,686 for the second employee) should have been reported as a taxable benefit.
- The former City Manager spent \$6,869 on maintenance and repairs of his assigned City vehicle at various car dealer service facilities and automotive parts and service vendors in the Fort Lauderdale area. The Public Works Department indicated that most of that work could have been performed much more economically in the City Public Works garage. The Director of Community Development purchased tires for the City-owned vehicle used in his daily commute and had the tires installed at a West Palm Beach vendor for \$674. The City Finance Director did not ensure the use of the lowest cost solution for repairs and maintenance, namely the use of the existing City facilities and personnel for City work whenever feasible.
- The Finance Director did not make contributions to the City Commissioners' retirement accounts on a timely basis. On October 19, 2010, the Commission authorized contributions to the Florida Retirement System ("FRS") on their behalf, as well as for the former City Manager. While the Finance Director immediately began disbursing the benefit to the former City Manager, he failed to make any contributions to the retirement accounts of the City Commissioners until July 2011,

resulting in underfunded accounts for nine months of missed contributions. No “catch up” adjustments were made.

- The Finance Director failed to ensure that adequate crime bond insurance was in place that would indemnify the City should it be subjected to fraud. Prior to the current fiscal year, coverage according to the bond declarations was \$25,000 for any loss related to the following positions: “Mayor” (Commissioner), “Vice Mayor” (Commissioner), and “City Clerk/Treasurer”. There was no stated coverage for the City Manager and Finance Director. The Finance Director was also appointed Treasurer on September 21, 2010. Prior to that date, the City Clerk served as Treasurer. The Finance Director was of the opinion that he was covered by “City Clerk/Treasurer” on the policy; however, the position covered was not based on “Finance Director/Treasurer”. Additionally, the insurance provider may not accept the lack of segregation between the positions of Finance Director and Treasurer due to the inherent risk. The Finance Director should have verified coverage. In addition, the coverage amount of \$25,000 was inadequate.

Beginning on October 1, 2012, the crime coverage was extended to all positions and increased to \$500,000 by the insurance provider, at no additional premium as a matter of its approach to underwriting. However, the City Finance Director was required to sign a policy document accepting this additional enhanced coverage, but did not do so until March 28, 2013, upon inquiry by the OIG.

- As noted in Finding (2), the Finance Director issued checks directly to the former City Manager for reimbursement of expenses with no documentation or proof that the former City Manager had actually incurred and paid the expense. Several of the items noted should have involved a payment from the City directly to the vendor if documentation was provided to substantiate the expense. The Finance Director failed to require documentation and to make payments directly to the vendors. The amounts were substantial.
- The Finance Director issued \$3,825 in reimbursement checks to the former City Manager for travel and other expenses paid by the former City Manager on behalf of City Commissioners. Since providing personal funds to finance Commissioner’s travel could give the appearance of impairment of the Commissioner’s oversight of the City Manager, the Finance Director should have established an alternative solution to finance City Commissioner costs related to travel.
- The Finance Director signs his own expense reports as requestor and approver for reimbursement. We noted two such instances. The same individual should not request and approve his or her own expenses.
- The Finance Director should have known that the City’s 2011 audited financial statements contained at least one inaccurate “Note” that was not corrected prior to the issuance of the statements to the public and State.

Recommendations

(17) The City Manager should ensure that the Finance Director provides financial reports to the Commission at the regular Commission meetings.

(18) The City Manager should ensure that the Finance Department only approves expenditures authorized by the Commission.

(19) The City Manager should ensure that the Finance Director establishes appropriate financial internal controls to address the weaknesses detailed in this report and exercise appropriate oversight to ensure that they are enforced.

(20) The Finance Director should report any questionable City financial activities that are proposed or executed by City personnel or others to the Commission and appropriate authorities.

(21) Given the issues noted in this audit, the duties of the Finance Director and Treasurer should be segregated.

(22) The City Manager should ensure that action is taken to correct the numerous deficiencies identified in the basic operations of the Finance Department including:

- a) prohibiting any form of a loan to a Commissioner or employee and immediately collect any that are outstanding;
- b) reviewing and approving all IT purchases and maintaining an accurate list of IT equipment for control purposes;
- c) ensuring that Florida state sale tax is not paid and requesting reimbursement for any erroneous payments;
- d) ensuring complete and accurate income tax is withheld from employee compensation according to federal regulations;
- e) updating bank signature cards on file with the bank to reflect current authorized employees only;
- f) completing bank reconciliations for all bank accounts on a timely basis;
- g) calculating the taxable benefits provided to certain employees and including the benefits in the employee's income for tax reporting purposes;
- h) ensuring that the lowest cost alternative is used for maintenance and repair of City vehicles;
- i) confirming the adequacy of coverage with the fidelity bond insurance company;
- j) establishing a cash travel advance process to cover travel for City Commissioners and City staff; and
- k) ensuring the accuracy of the City's audited financial statements.

(23) The City Manager should review the justification for assigned take home vehicles.

Management Response:

(17) At each regular scheduled commission meeting the Finance Director will render a verbal and written report of the bi-weekly expenditures and seek approval of budget transfers and amendments as of April 16, 2013.

(18) Pursuant to section 2-260 of the City's Ordinance, during this administration all contracts will be reviewed and approved by the Commission. Additionally as of April 16, 2013 the Commission has amended the purchasing policy that will allow the staff to operate more efficiently and prevent waste, fraud and abuse, and the Finance Department will ensure that all expenditures are budgeted and funds are available prior to approval.

(19)-(20) Enacted with the approval of the City's purchasing and Accounting policy as of April 16, 2013.

(21) Due to the size of the City staff we are currently conducting an assessment to determine how this recommendation could be accomplished and acknowledge that segregation of duties must be imposed to ensure adequate and appropriate financial controls are in place.

(22) Enacted with the approval of the City's purchasing and Accounting policy as of April 16, 2013.

(23) The City Manager is in the process of reducing the number of take home vehicles to only employees that must respond in the event of an emergency. This will be completed by May 31, 2013.

QUESTIONED COST AND COST AVOIDANCE¹

Questioned Cost: \$306,377

Cost Avoidance: \$862,473

ATTACHMENTS

Attachment 1- Complete Management Response

ACKNOWLEDGEMENT

As noted on page 5, the Inspector General's audit staff would like to extend our appreciation to the City employees for their assistance in the completion of this audit.

This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Please address inquiries regarding this report to Dennis Schindel, Director of Auditing, by email at inspector@pbcgov.org or by telephone at (561) 233-2350.

¹ Please see www.pbcgov.com/OIG for description

ATTACHMENT 1 - Complete Management Response

**City of South Bay**

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South Bay, FL 33493
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Facsimile: 561-996-7950

www.southbaycity.com

Commission

Esther E. Berry
Mayor

Joe Kyles Sr.
Vice Mayor

Taranza McKelvin

Leondrae D. Camel
Interim City Manager

Jessica Figueroa, City Clerk

Thomas Montgomery, City Attorney

"An equal Opportunity
Affirmative Action Employer"

May 2, 2013

Dennis Schindel, Director of Audit
Palm Beach County Office of Inspector General
P.O. Box 16568
West Palm Beach, FL 33416

RE: Response to Audit of the City of South Bay Cash Disbursements

Dear Mr. Schindel,

The City of South Bay received the draft report of the Palm Beach County Office of Inspector General (OIG) on April 25, 2013 regarding cash disbursements.

Based upon prior events the OIG initiated an audit of the City of South Bay financial operations. As you are aware the South Bay has a small staff of professional public servants that has the citizens of South Bay best interest at heart daily.

Despite the abrupt change in senior level management the City fully cooperated with the OIG staff during the audit process, including the staff time for the production of documents, policies and records, answering inquiries and requests, and interviews with multiple staff members. There were however several findings in the draft audit that identified control weaknesses and lack of appropriate oversight of the City's financial activities. The City of South Bay during this administration has begun addressing many of the recommendations prior to the issuance of the draft audit report; such as amending the purchasing policy, deactivating the American Express card, and issuance of a policy prohibiting the processing of check requests without proper approval and adequate documentation to support payment.

Management will continue conducting a thorough review of the revisions necessary to our policies and procedures to consider the best and appropriate method to prevent and minimize fraud, waste and abuse.

The City of South Bay appreciates the opportunity to comment on the draft audit report. Our detailed response is attached.

Best Regards,

Leondrae D. Camel
Interim City Manager

ATTACHMENT 1 - Complete Management Response (Continued)**Audit of the City of South Bay Cash Disbursements
Detailed Response to OIG Recommendations****Finding (1)****OIG Recommendations:**

- (1) The City Manager should work with the Commission to establish a standard format for regular financial reporting as part of the regular Commission meeting agenda. This should include detailed information on the use of City funds including monthly expenditures.
- (2) The City Manager should ensure that all purchases, including those requiring contracts, be submitted for Commission approval as required by City Ordinance Section 2-260. To ensure the continuity and timeliness of executing City payments, the City Manager may need to consider requesting an amendment to the Ordinance to require pre-approval only for expenditures above a specified dollar threshold. All purchases below the established threshold should be detailed and presented monthly for Commission review.
- (3) The City Manager should establish policies and procedures for Commission approval that provide for reporting matters to the Office of Inspector General as required by the Inspector General Ordinance. Once approved the City Manager should ensure that all employees are made aware of those procedures.

Management Response:

- (1) At each regular scheduled commission meeting the Finance Director will render a verbal and written report of the bi-weekly expenditures and seek approval of budget transfers and amendments, as of April 16, 2013.
- (2) Pursuant to Section 2-260 of the City's Ordinance during this administration all contracts will be reviewed and approved by the Commission. Additionally as of April 16, 2013 the Commission has amended the purchasing policy that will allow the staff to operate more efficiently and prevent waste, fraud and abuse.
- (3) The City Manager shall work with the City Attorney, OIG and the City Commission to establish policies and procedures that provide for reporting matters to the OIG which would be completed in sixty (60) days.

ATTACHMENT 1 - Complete Management Response (Continued)**OIG Finding (2)****Recommendations:**

- (4) The City Manager should establish a policy with Commission approval that identifies allowable and unallowable expenditures including prohibiting those types of expenditures that do not have a clear public purpose or public benefit.
- (5) The City Manager needs to establish a set of comprehensive policies and procedures that establish appropriate financial controls including proper segregation of duties that ensures one individual does not perform two or more incompatible duties.
- (6) The City Manager should issue a policy prohibiting the processing of check requests without proper approval and adequate documentation to support the payment. The policy should specify the type of documentation required.

Management Response:

- (4) The City Manager will establish a policy with City Commission approval identifying allowable and unallowable expenditures including prohibiting those expenditures that do not have a clear public purpose or benefit by July 31, 2013.
- (5) Due to the size of the City staff we are currently conducting an assessment to determine how this recommendation could be accomplished and acknowledge that segregation of duties must be imposed to ensure adequate and appropriate financial controls are in place.
- (6) This administration has issued a policy prohibiting the processing of check requests without proper approval (Department Director, Finance Director and City Manager) on March 26, 2013.

OIG Finding (3)**Recommendations:**

- (7) The City Manager should establish a comprehensive set of policies and procedures for issuance and control of credit cards as well as a process for review and approval of credit card transactions.
- (8) The City Manager should ensure that all credit card charges are authorized, reviewed, have adequate supporting documentation and are for a valid public purpose.
- (9) The City Manager should take immediate action to deactivate the credit card issued in the name of the former City Clerk.
- (10) The City Manager should determine the optimal credit card solution such as use of purchase cards ("p-card"). Credit cards should be issued to individual employees based on their job requirements; a credit card should not be shared between employees.

ATTACHMENT 1 - Complete Management Response (Continued)

(11) The City Manager, in consultation with the City Attorney, should determine the collection procedures to follow concerning the \$2,465 and any other unpaid reimbursement due to the City by the former City Manager.

Management Response:

(7) A separate policy will be developed for the issuance of credit cards by June 1, 2013. And the process for review and approval of credit card transactions will be in accordance with the City's purchasing policy.

(8) With the approval of the newly enacted purchasing policy, pending credit card charges shall be approved with the appropriate supporting documentation prior to transaction occurrence.

(9) The American Express card was deactivated following the approval and issuance of new credit cards.

(10) A separate policy will be developed for the issuance of credit cards by June 1, 2013. And the process for review and approval of credit card transactions will be in accordance with the City's purchasing policy.

(11) A city policy will be amended based on the decision of the Commission to collect all unpaid funds due to the city from the former City Manager/vendors by June 30, 2013.

OIG Finding (4)**Recommendations:**

(12) The City Manager should develop contract procurement policies and procedures consistent with the City Ordinance.

(13) The City Manager should ensure that all contracts are approved by the Commission.

(14) The City Manager should ensure the involvement of the responsible department head to monitor contract performance and to verify work performed prior to payment of invoices.

(15) The City Manager should seek reimbursement from the youth summer program contractor for overcharges.

(16) The City Manager should evaluate the contract and ensure that the credit of \$10,000 previously paid to the Commerce Center contractor is credited to the amount due under the new contract. The work should be closely monitored for compliance with the terms of the contract.

Management Response:

(12) - (14) The City's (new) purchasing policy includes contract procurement procedures.

(15) A city policy will be amended based on the decision of the Commission to collect all unpaid funds due to the city from the former City Manager/vendors by June 30, 2013.

ATTACHMENT 1 - Complete Management Response (Continued)

(16) No later than May 21, 2013 the City Commission will make recommended amended changes to the Commerce Center contract.

OIG Finding (5)**Recommendations:**

(17) The City Manager should ensure that the Finance Director provides financial reports to the Commission at the regular Commission meetings.

(18) The City Manager should ensure that the Finance Department only approves expenditures authorized by the Commission.

(19) The City Manager should ensure that the Finance Director establishes appropriate financial internal controls to address the weaknesses detailed in this report and exercise appropriate oversight to ensure that they are enforced.

(20) The Finance Director should report any questionable City financial activities that are proposed or executed by City personnel or others to the Commission and appropriate authorities.

(21) Given the issues noted in this audit, the duties of the Finance Director and Treasurer should be segregated.

(22) The City Manager should ensure that action is taken to correct the numerous deficiencies identified in the basic operations of the Finance Department including:

- a) prohibiting any form of a loan to a Commissioner or employee and immediately collect any that are outstanding;
- b) reviewing and approving all IT purchases and maintaining an accurate list of IT equipment for control purposes;
- c) ensuring that Florida state sale tax is not paid and requesting reimbursement for any erroneous payments;
- d) ensuring complete and accurate income tax is withheld from employee compensation according to federal regulations;
- e) updating bank signature cards on file with the bank to reflect current authorized employees only;
- f) completing bank reconciliations for all bank accounts on a timely basis;
- g) calculating the taxable benefits provided to certain employees and including the benefits in the employee's income for tax reporting purposes;
- h) ensuring that the lowest cost alternative is used for maintenance and repair of City vehicles;
- i) confirming the adequacy of coverage with the fidelity bond insurance company;
- j) establishing a cash travel advance process to cover travel for City Commissioners and City staff; and
- k) ensuring the accuracy of the City's audited financial statements.

(23) The City Manager should review the justification for assigned take home vehicles.

ATTACHMENT 1 - Complete Management Response (Continued)**Management Response:**

(17) At each regular scheduled commission meeting the Finance Director will render a verbal and written report of the bi-weekly expenditures and seek approval of budget transfers and amendments as of April 16, 2013.

(18) Pursuant to section 2-260 of the City's Ordinance, during this administration all contracts will be reviewed and approved by the Commission. Additionally as of April 16, 2013 the Commission has amended the purchasing policy that will allow the staff to operate more efficiently and prevent waste, fraud and abuse, and the Finance Department will ensure that all expenditures are budgeted and funds are available prior to approval.

(19) Enacted with the approval of the City's purchasing and Accounting policy as of April 16, 2013.

(20) Enacted with the approval of the City's purchasing and Accounting policy as of April 16, 2013.

(21) Due to the size of the City staff we are currently conducting an assessment to determine how this recommendation could be accomplished and acknowledge that segregation of duties must be imposed to ensure adequate and appropriate financial controls are in place.

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(23) The City Manager is in the process of reducing the number of take home vehicles to only employees that must respond in the event of an emergency. This will be completed by May 31, 2013.